An “Argonauts” Strategy to Reduce Caribbean Economic
Vulnerability

Jay R. Mandle
W. Bradford Wiley Professor of Economics
Colgate University

Revised Version of Paper Prepared for 1st International
Conference on Governance for Sustainable Development of
Caribbean Small Island Developing States, University of
Netherlands Antilles, 3-7 March, 2011
Vulnerability

Small countries are more vulnerable to economic shocks than large ones because the costs of adjusting to structural change are inversely related to size and diversification. Changing patterns of demand and the development of new technologies are integral to functioning markets. Profit opportunities ebb and flow. Big economies can respond to these changes with increased output in dynamic sectors while reducing production in declining industries. This adjustment process however is more difficult and costly for small economies.

In a big multi-sector economy, labor or capital made redundant in one sector can typically relocate to others that are experiencing growth. But smallness of size limits the availability of such productive alternatives. The number of different sectors to which now-unused resources can relocate is necessarily constrained. In small economies, success in the reallocation process tends to be contingent upon the emergence of new sectors of economic activity. The problem is that establishing such new industries is achieved only with a lag. In the meantime, the economy suffers from lost output and income.
Special and Differential Treatment

The Guyanese economist Clive Y. Thomas argues that because of their economic vulnerability preferential market access is “crucial” for small countries. He acknowledges that “there is no question that trade can be, and has been, an engine of economic growth and development.” But he goes on, the vulnerability experienced by SIDS means that they are not “adequately endowed to reap the full benefits of trade liberalization while coping with the disruptive effects of rapidly opening trade regimes.” As a result “SDT emerges as the linchpin of the effort to promote a more development and adjustment oriented WTO.” Thomas writes that SIDS should set as their “premier objective” the “acceptance for SDT as a fundamental regulator principle of the emerging trade order” (Thomas 2003, 17, 19, 20).

Thomas is not explicit concerning the nature of the SDT that he envisions. But whatever its form, the goal would be to shield small economies from the costs caused by market changes. Historically such protection has been provided by metropolitan countries applying lower tariffs on imports from countries that they seek to assist than from others. But SDT in this form carries with it the risk of damaging consequences. Its effect is to impede an economy’s response to new market opportunities. In that
way, the short run gains may come at the expense of long-term growth.

In any case, it is unlikely that in the foreseeable future there will be a need to debate the appropriate content of SDT. Non-reciprocal trade agreements are out of fashion. Winning acceptance for SDT would mean the need to alter the principles upon which the rules of international trade have been constructed. Recent negotiations and trade agreements suggest that there is next to no likelihood that this will happen. The hegemony of neo-liberalism’s principles was clearly revealed in the recently agreed upon Economic Partnership Agreement (EPA) negotiated by the European Community (EC) and the countries of the region through CARIFORUM. The Cotonou Partnership Agreement of 2000 had committed the participants to achieving a WTO compatible reciprocal trade pact by 2008. In fact in the negotiations with the Caribbean, the EC stretched the principle of reciprocity beyond those required by the WTO into areas such as government procurement procedures, rules governing competition, and investment regulations (Girvan 2008). Though academically discredited, liberal trade orthodoxy remains in place at policy-making levels.

When finally agreed to, the EPA stirred considerable opposition in the West Indies. But this opposition failed
to overturn the agreement. The upshot is that the economies of the Caribbean – each small and vulnerable – are now committed to a pattern of trade and investment with Europe in which SDT plays no role at all. It is very likely that the rigidity with which the Europeans negotiated the EPA is a harbinger of how trade talks are likely to proceed in the future. The international community is no more likely to provide SDT in the future than it has been in the past.

Integration

A second strategy that could reduce vulnerability is to successfully implement the Caribbean Single Market and Economy (CSME). The combined population of the nations of CARICOM (excluding Haiti) is in excess of six million. This is by no means a large number, but its size does suggest that combining the disparate economies of the region would create an enhanced cushion against future market changes.

The economic case for integration was advanced by Havelock Brewster and Clive Y. Thomas in 1967 in the first of a series of studies published by the Institute for Social and Economic Research at the University of the West Indies in Jamaica. In The Dynamics of West Indian Integration, Brewster and Thomas not only called for liberalized trade within the region. In addition they argued that “the co-ordination of commercial legislation
and the establishment of a common set of incentive legislation is a *sine qua non* of an integrated West Indies” (Brewster and Thomas, 1967, 7, 30).

Since the appearance of that pioneering work many scholars have built upon it, most recently by Norman Girvan in a detailed study that was adopted in principle by the CARICOM Heads of Government in 2007. Girvan envisions that the CSME could act as an “entrepreneurial state” that would enable the region to accelerate its rate of economic growth. Girvan advocates that “common Community policies and support measures” be adopted to advance region-wide “drivers of economic growth and transformation.” These drivers would be clusters of industries centered on energy, agriculture, forestry and fishing, manufacturing, sustainable tourism and other export services. To qualify as a driver, an industry would “not have to be present in the economies of all member states, it can be concentrated in one or two economies for reasons of resource availability, but it must be capable of imparting dynamism to other economies and to the Community as a whole.” The hope therefore is that with government support these clusters of economic activity would “drive economic growth in the Community as a whole,” and achieve levels of
development that would be unobtainable in the absence of integration (Girvan 2007, 13, 18).

Starting with the 1965 signing of the Caribbean Free Trade Area (CARIFTA) including Antigua, Barbados and (the then) British Guiana, there have been advances in regional economic integration. Most significant in this regard was the Treaty of Chaguaramus in 1973 which established the Caribbean Community and Common Market (CARICOM) and the 2000 Revised Treaty of the same name whose stated objective was to bring into existence a Caribbean Single Market and Economy (CSMA).¹

But over and against these accomplishments, the integration process has been frustrating. There are still restrictions on the movement of goods among member states, a Common External Tariff is inconsistently applied and there is very little policy convergence or coordination (Thorburn et al 2010, 9). Next to nothing had been done to harmonize laws or to introduce common support measures. Indeed in 2009 the World Bank declared that “economic

¹ At the sub-regional level, the impetus towards cohesion resulted in the 1981 establishment of the Organization of Eastern Caribbean States (OECS). OECS member states share a common currency and monetary policy is set by an Eastern Caribbean Central Bank. Recently the OECS has set out to deepen its integrative function. In December 2009 the members of the organization initialed a draft of a new treaty which, as described by the organization, will establish an “Economic Union...as a single financial and economic space” (Organisation of Eastern Caribbean States 2009, 5).
integration has stalled in the region‖ (Tsikata et al 2009, 31).

Regionalism’s fragile hold on the aspirations of the Caribbean people is described this way by Sir Shridath Ramphal: “the natural state of …our Caribbean is fragmentation; without constant effort, without unrelenting perseverance and discipline, in suppressing instincts born of tradition and environment, it is to our natural state of disunity that we shall return” (Ramphal 2008, 4). To date at least the needed perseverance and discipline have not been present.

Economists based at the Caribbean Policy Research Institute have held out the hope that the EPA will be the mechanism that breaks the integration log-jam. Indeed, they write that “for the Caribbean, the regional integration component is the most important element of the EPA.” Their argument is two-fold. On one hand they maintain that the EPA will provide a mechanism by which obstacles to integration will be removed. On the other hand, they point out that the agreement provides for technical assistance that will used to achieve greater tax harmonization, legislative reform and tax reform...” As such, the authors argue that “the EPA presents an opportunity for a deeper and smoother integration through the CSME than what has
been accomplished so far through CARICOM” (Thorburn et al 2010, 8, 9).

The assessment that the EPA is a means by which to strengthen and deepen regional integration is almost certainly erroneous. In the first place, it was not CARICOM that negotiated the agreement with the Europeans. The latter insisted that the negotiations include the Dominican Republic, a country that though located in the Caribbean is not a member of the regional grouping. The consequence of this was that the agreement was not negotiated with CARICOM but rather with a new entity CARIFORUM, an ad hoc grouping that included the Dominican Republic.

The problem with this is that CARIFORUM is not a juridical entity. As a result, the EPA formally is not an agreement with the group of Caribbean nations but rather with each individual West Indian country. This institutional anomaly not only weakens the region’s institutional structure. As well, as Girvan has argued, it “provides an incentive for individual countries to compete with one another in access right and benefits from the EC” (Girvan 2008 15).

The upshot is that not only has the promise of integration not been realized in the past. What is worse, the complications associated with the EPA have, if
anything, made achieving integration even more difficult. No amount of technical assistance will be adequate if in the new arrangements each individual country is allowed to pursue its narrow interests separate from the others.

The “New Argonauts”

With SDT unlikely and integration stalled, it is necessary to look beyond these conventional means to minimize the region’s vulnerability. An alternative mechanism would have as its goal advancing the region’s productive technological level by encouraging a return flow of highly educated émigrés.

There is an urgent need for such a productivity upgrade to be achieved. A recent study by the International Monetary Fund concerning labor productivity is revealing in this regard. The IMF computed the level of output per worker in the Caribbean and compared it with that in the United States. These data are useful not so much to show what is widely known, namely that compared to the developed world labor productivity in the region is low. What is more significant is that by examining this statistic over time, it is possible to learn to the extent to which the gap is closing. Evidence that Caribbean labor productivity is growing relative to that in the United States would be a positive indicator of progress in economic modernization.
As revealed in Table 1 however, there is no basis for concluding that taken as a whole the Caribbean has entered into a period of accelerated productivity growth. In eight of the twelve countries for which adequate data are available, there was actually a decline in labor productivity relative to the United States, and in one (Guyana) it remained stable (at a very low level). In three others there was an increase, with the upward movement in Trinidad and Tobago quite substantial. But overall for the

Table 1

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2007</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>0.85</td>
<td>0.64</td>
<td>-0.21</td>
</tr>
<tr>
<td>Barbados</td>
<td>0.73</td>
<td>0.59</td>
<td>-0.14</td>
</tr>
<tr>
<td>Belize</td>
<td>0.30</td>
<td>0.29</td>
<td>-0.01</td>
</tr>
<tr>
<td>Dominica</td>
<td>0.17</td>
<td>0.12</td>
<td>-0.05</td>
</tr>
<tr>
<td>Grenada</td>
<td>0.41</td>
<td>0.40</td>
<td>-0.01</td>
</tr>
<tr>
<td>Guyana</td>
<td>0.06</td>
<td>0.06</td>
<td>0.00</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.31</td>
<td>0.23</td>
<td>-0.08</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>0.26</td>
<td>0.38</td>
<td>+0.12</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>0.38</td>
<td>0.32</td>
<td>-0.06</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>0.14</td>
<td>0.16</td>
<td>+0.02</td>
</tr>
<tr>
<td>Suriname</td>
<td>0.35</td>
<td>0.26</td>
<td>-0.09</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>0.36</td>
<td>0.60</td>
<td>+0.24</td>
</tr>
<tr>
<td>Population Weighted Mean</td>
<td>0.33</td>
<td>0.32</td>
<td>-0.01</td>
</tr>
</tbody>
</table>

Source: Computed from International Monetary Fund, World Economic and Financial Surveys, Regional Economic Outlook, Western Hemisphere (Washington DC: International Monetary Fund, October 2010, Appendix Table 5-2)
Caribbean as a whole the population-weighted relative labor productivity mean essentially remained stable at only about one third the level recorded in the United States.

If the region were to reverse this pattern and greatly increase its rate of productivity increase, its vulnerability would be substantially reduced. By moving up the value chain, the West Indies would find more secure markets. The region would benefit from upswings in product life cycles and would be able to supply products with high income elasticities of demand. Further, the presence of the technical sophistication associated with high levels of productivity would allow Caribbean economies to adjust to market changes with greater alacrity than they now possesses.

To a large extent the human resources required for the Caribbean to achieve technological catch-up reside in its Diaspora. Emigration rates for CARICOM countries are the highest in the world. The data in the first column of Table 2 indicate that 37.7 percent of people born in a CARICOM nation live outside of the region.

But was what is even more dramatic is the outflow of skilled labor from the Caribbean. The second column of Table 2 reports on the percentage of Caribbean people with
Table 2
Emigration Rates CARICOM Countries, 1965-2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Rate of Emigration</th>
<th>Rate of Skilled Emigration</th>
<th>Rate of Skilled Emigration (16 years or more)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua/Barbuda</td>
<td>37.6</td>
<td>66.8</td>
<td>79</td>
</tr>
<tr>
<td>Barbados</td>
<td>32.3</td>
<td>63.5</td>
<td>76</td>
</tr>
<tr>
<td>Belize</td>
<td>29.0</td>
<td>65.5</td>
<td>73</td>
</tr>
<tr>
<td>Dominica</td>
<td>40.8</td>
<td>64.2</td>
<td>67</td>
</tr>
<tr>
<td>Grenada</td>
<td>53.7</td>
<td>85.1</td>
<td>62</td>
</tr>
<tr>
<td>Guyana</td>
<td>42.1</td>
<td>89.0</td>
<td>59</td>
</tr>
<tr>
<td>Jamaica</td>
<td>35.3</td>
<td>85.1</td>
<td>53</td>
</tr>
<tr>
<td>St.Kitts/Nevis</td>
<td>49.4</td>
<td>78.5</td>
<td>48</td>
</tr>
<tr>
<td>St.Lucia</td>
<td>23.1</td>
<td>71.1</td>
<td>45</td>
</tr>
<tr>
<td>St.Vincent/Grenadines</td>
<td>36.5</td>
<td>84.5</td>
<td>43</td>
</tr>
<tr>
<td>Suriname</td>
<td>47.4</td>
<td>47.9</td>
<td>NA</td>
</tr>
<tr>
<td>Trinidad/Tobago</td>
<td>25.2</td>
<td>79.3</td>
<td>17</td>
</tr>
<tr>
<td>Unweighted Mean</td>
<td>37.7</td>
<td>73.3</td>
<td>65.5</td>
</tr>
</tbody>
</table>

Rate of Emigration and Rate of Skilled Emigration, Docquier and Marfouk 2005, Table A.1-2; Rate of Skilled Emigration (16 years or more), Table 4, Mishra 2006, Annex Table 1

college degrees who live in the developed world. The data in this column are remarkable. Virtually all college educated Guyanese (89.0 percent) live abroad and the percentage is not much lower for Grenada, St. Kitts and Nevis, and St. Vincent and the Grenadines. This suggests that, taken as a whole, in excess of 70 percent of highly educated West Indian people reside outside of the region.

Since some of these well-educated émigrés may have received their advanced degrees only after having moved from the West Indies, these data may overstate the Caribbean’s loss. The region did not invest as much in the
people who were educated elsewhere as it did in the people
who received their tertiary degree in the West Indies. To
take this into account, Mishra notes that individuals who
migrate in their late teens or later are less likely to
obtain their schooling in the United States than in their
home country (Mishra 2006, 17). Restricting the migration
rate to those who left the Caribbean at age 16 or higher
therefore refines the measure and adjusts it to better
capture the loss of educated people from the region who
received their tertiary schooling in the West Indies. When
this is done, as Column 3 of the table shows, the estimate
of regional loss is reduced. But the fact remains that
skilled emigration from the region is very high, with the
unweighted mean suggesting than more than half of well-
educated Caribbean people live in the developed world.

The outflow of people, particularly highly skilled and
educated individuals, has militated against economic
modernization, depriving the Caribbean of precisely the
kind of human capital that a modern economy requires
(Mishra 2006, 24-28). But by the same token, if these human
resources were made available to the West Indies economies
the opposite would be the case. The country of origin’s
growth potential would be enhanced and in the process their
vulnerability would be reduced.
In this regard, the region would benefit from an examination of the experiences of the developing nations that have succeeded in attracting a return flow of nationals. In the cases of China, India and Taiwan among other nations, these returnees have been described by Annalee Saxenian as the “new Argonauts.” With this phrase Saxenian is referring to mobile, highly skilled individuals with work experience in the high-tech centers of the developed world. They, she writes, “transfer up-to-date information and know-how to help their home economies participate in the IT revolution.” Saxenian might well have had the Caribbean in mind when she wrote that “developing countries that invested heavily in education ... suffered from a ‘brain drain’ as their most talented students left to take advantage of education opportunities abroad.” But unlike the experience in the West Indies, elsewhere “a small but meaningful proportion of individuals who left their home countries for greater opportunities abroad have now reversed course, transforming a brain drain into a ‘brain circulation.’” Where this process has been successful, these highly educated émigrés, upon returning home, produced entrepreneurial communities that were able to compete successfully in global high-tech markets. Rising
incomes and structural transformation have been the consequence (Saxenian 2006, 4, 7, 325).

The question that arises is whether this process can be replicated in the Caribbean. Can a class of West Indian Argonauts play the same role for the region as have returned migrants elsewhere? That such a group of Caribbean people exists is beyond doubt. In the United States in 2000, 25.7% of Jamaicans, 27.5% of Trinidadians and Tobagonians, and 28.7% of Guyanese were professionals and managers. These were levels not much different from the percentage of non-Hispanic Whites, the group occupying the highest occupational status in that country (Boswell and Jones, 177).

Research done at the Shridath Ramphal Center at the University of the West Indies, Cave Hill, however suggests that there is much work to be done before the human capital present in the diaspora will be available to the region. Jason Jackson reports that Jamaica’s biotechnology sector lacks a “institutional model for diaspora engagement.” Overseas Jamaicans possess “weak links with the domestic private sector,” resulting in “misunderstandings of incentives/innovations” and an overall “lack of [an]effective strategy.” Similarly, Indianna Minto-Coy reports with regard to the telecom sector that engagement
with the diaspora is low despite the presence of capacity in both overseas and domestic populations (Nurse et al, 2010).

What these comments suggest is that the region will have to adopt a carefully designed plan if a Caribbean Argonaut strategy is to succeed. There is a need, as the UWI study suggests for “a clear statement of intent on a diaspora strategy.” Highly skilled and educated Caribbean nationals will return home only if they are offered powerful incentives to leave their current locations. For as Saxenian notes, “emigrants usually return home only when they come to believe that their capabilities will be more highly valued in their native environment than in the United States” (Saxenian 2006, 326). Caribbean policymakers will have to turn their attention to the Diaspora in ways that have not been the case in the past.

It is likely that the universities in the region will have to be the focus of a strategy to accelerate growth by attracting highly educated emigrants from abroad. In the Caribbean only those institutions possesses the intellectual resources to become the kind of technologically sophisticated hub that could attract a reverse flow of high level talent. In this they could follow the model initiated in China where the government
launched a project to develop their universities so that they would, as Cervantes and Guellec put it, “not only provide higher education training but also academic employment and research opportunities” (Cervantes and Guellec 2002, 4). The scale involved in the Chinese experience of course is vastly different than what would have to occur in the Caribbean. But the principle remains the same. If, for example, the University of the West Indies were self-consciously to become a hub of technologically sophisticated research and development, it could provide an attractive environment that might convince highly trained and educated West Indian people to return to the region. They could do so in roles that might combine entrepreneurship and academic employment.

The fact remains that to date the kind of return migrant strategy that has been implemented elsewhere is not yet on the regional agenda. There are governmental schemes in place designed to attract retirees. But no concerted public sector effort is underway to create the conditions that would attract high-tech Caribbean overseas business people and professionals. Neither the governments of the region nor the University of the West Indies have addressed this area in a serious way.
An “Argonaut” strategy will of course require continued research before it can successfully be implemented. The returning migrant’s experiences elsewhere will have to be investigated to determine the extent of their relevance in the Caribbean environment. But just as important, it will be necessary for supportive public opinion to be mobilized. A change in course of this kind is never easy to achieve, and there will be opposition. Altering the course of the country’s development and moving it into the world of advanced technology will require a political decision for which an extended period of discussion and debate is required.

Conclusion

The formation of a West Indian cadre of “Argonauts” offers the best hope that the region’s economic vulnerability can be substantially reduced. SDT is not on the global trade agenda and the regional integration process has been and likely will continue to be disappointing. Initiating a return flow of entrepreneurial talent from the Diaspora is a strategy that could, if successful, allow the region to develop in a way than provides it with greater protection from market shocks that it possesses at present.
References


Brewster, Havelock and Clive Y. Thomas (1967) The Dynamics of West Indian Economic Integration (Jamaica: Institute of Social and Economic Research, University of the West Indies


International Monetary Fund 2010, World Economic and Financial Surveys, Regional Economic Outlook, Western Hemisphere (Washington DC: International Monetary Fund,


Mishara, Prack 2006 Emigration and Brain Drain: Evidence from the Caribbean International Monetary Fund Working Paper WP/06/25


Ramphal, Sir Shridath 2008 When '10’ May Have Been An Odd Number: Some Perspectives on the West Indies, UWI–Cave Hill Campus: The Errol Barrow Centre for Creative Imagination


